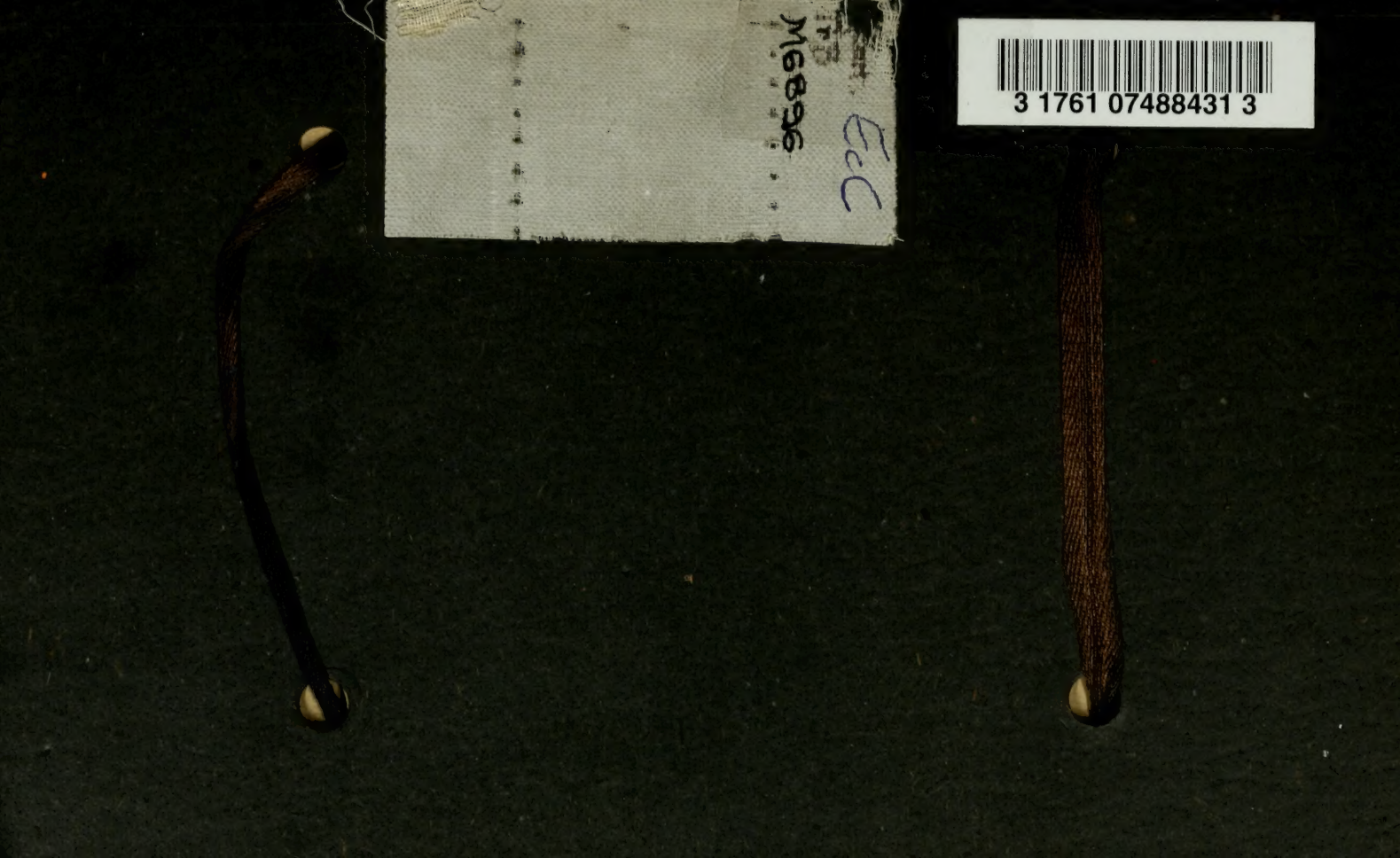
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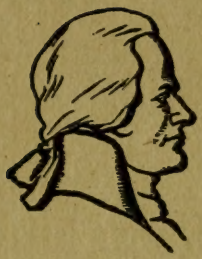
THE MAN AT THE CREDIT DESK



MODERN BUSINESS
TALK No. 16

ALEXANDER HAMILTON INSTITUTE
NEW YORK

The Man at the Credit Desk

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Number Sixteen of a Series of Modern
Business Talks Prepared by the
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NEW YORK

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READING ASSIGNMENT
NUMBER SIXTEEN

"Only by ceaseless vigilance and thoro investigation of the conditions that surround the credit seeker's business . . . can the credit man check the largest possible percentage of orders while keeping his losses at a low mark."—Page 176, Chapter XI, Volume 8 of the MODERN BUSINESS Text.

(1) Read this Talk on "The Man at the Credit Desk." A number of factors enter into the work of the modern credit man. He often has conflicting interests to protect and difficult questions to decide. He must combine a knowledge of human nature with the diplomacy and tact of a statesman, the discrimination of a judge and the tenacity of a pugilist. In the current assignment his functions and their requirements are interestingly discussed.

(2) Read Chapters XI to XIX (Pages 175 to 335 inclusive) of "Credit and the Credit Man" which is the eighth volume of the MODERN BUSINESS Text.

(3) Analyze the situation described in Problem 8 and send in your solution for criticism.

The brain is the general manager of your faculties and functions, but it is not the proprietor—it is not yourself. It is well to make sure that the general manager is "on the job," strictly applying himself to the business over which he is set to preside. Sometimes he shirks and idles. You should hold him to his task by an effort of your will. The secret lies in concentration.

"The greatest possession is self-possession."—GIBSON'S MAGAZINE.

The Man at the Credit Desk

> *"The existence of the credit man as a distinct functionary in business is the result of the development of that system of credit giving which in this country has grown up in connection with the sale of goods on open account."*—Page 175, Chapter XI, Volume 8 of the MODERN BUSINESS Text.

A Boston house some years ago had as credit manager an ultra-conservative man who boasted that in no single year since he took charge had losses exceeded one-half of one per cent, altho formerly they had at times come very close to one per cent. "It were better," he argued, "to sell less goods and be sure of your money than to risk losing both goods and money."

But this policy did not suit the sales department, and a great deal of unhappy friction was the result. Again and again the salesmen of the firm found that orders which they believed to be perfectly good were declined by the credit man without any reason being assigned for their refusal. The men began to lose heart, and some of the men actually left the firm and went elsewhere. Representations made to the credit man went unheeded. "I never knew a salesman," he would say, "whose ideas of a credit risk were worth a cent. All he cares for is to get the order, and he will tell you solemnly that the customer

is 'perfectly good' even tho he may be on the brink of bankruptcy."

As might be expected of him, this philosopher-credit manager never consulted the salesmen. He went wholly by the information he obtained from rating books and agency reports. Not until his information showed him that the transaction was as safe as it was humanly possible to make it, did he place his approving O. K. on the order. Gradually the sales force developed a strong dislike for this autocrat of the credit desk and when on one occasion a failure took place in which the firm lost nearly two thousand dollars, the salesmen among themselves were heard to gloat over the fact that the cautious credit man had been "stuck" so handsomely!

A Change of Policy

Eventually the firm woke up to the fact that the present system of credit management, despite its low percentage of losses, was entirely too expensive by reason of the fact that much good business was being lost thru an ultra-conservative credit policy which the credit man was unwilling to change. Accordingly, a change in management was introduced, and the man selected for the position, tho considerably younger than his predecessor and without other experience in credit work than that which he had acquired as a subordinate in the department, was a broadminded chap and a diligent student of modern scientific business management. It was

just because of its knowledge of this fact that the firm decided to put him in charge of the credit department.

The first thing the new credit man did was to have a long conference with the sales manager. "Our interests are identical," he said, "and we must work together. I regard the information your men are in a position to give me as being fully as important as that which I can get from other sources. In fact this particular kind of information I cannot get from any other source. I am sure it will not be necessary for me to decline any accounts that your men recommend after visiting the merchant in his store."

As a result of this interview a cordial letter was prepared and sent to the men on the road, in which the nature of the information wanted was suggested and its value pointed out. The letter said among other things:

"You can aid me greatly if you will observe the appearance of things in the store while you are there. For example, is the store, including the stock, kept clean and orderly? Do the proprietor and his help show tact and selling ability in handling customers? Is there evidence of proper effort to attract customers to the store? That is very nearly all I want to know, except that you will probably be able to learn in the course of your conversation whether the merchant considers that he is making money, standing still, or going behind. And don't omit to learn the names of other houses selling him."

Subsequently cards were printed and supplied upon which the salesmen indicated by check marks or by a "yes" or "no" most of the data called for. (See page 86 of Volume 8.)

Losses on Goods That Were Never Sold

The attitude and policy of the new credit manager had the happiest results. Not only did he rapidly gain the good-will and cooperation of the sales force, but the salesmen were trained to become keen observers of those little, tho important, things whereby a merchant's chances of success may often be accurately gauged. Following the adoption of a more liberal credit policy, the house found its sales increasing materially and at the end of the year, despite a local strike which for a time threatened serious loss, there was a gain of nearly sixteen per cent in sales over the year before, while the percentage of losses but slightly exceeded that of former years.

"The experience of the last year," said a member of the firm who related the incident, "has proved to our satisfaction that for years past we have been losing more money on orders that we did not fill than on those that were filled and not paid for!"

The element of hazard cannot be excluded from business. If it could, the game would lose its zest.

Making a Difference

Of course, it is possible to err on the other side of the line. Recklessness in granting credit has put

more than one merchant out of business. It would be reckless, indeed, to take the same standards today as those that were taken thirty years ago before competition had reduced the profit margin to such narrow limits. Much depends upon getting the right sort of information. Many a dealer with a small capital is given credit greatly in excess of the amount to which his quick assets, considered by themselves, would entitle him. But in that case there are always present some factors that in the eyes of the creditor house make up for the deficiency in that respect. Usually, such dealer is a prudent buyer, a good collector, frugal in his personal expenditures and scrupulously exact in caring for his obligations. The supply-house credit man who is taking his work seriously knows that barring accidents, such a dealer will some day have all the capital he needs, and he (the credit man) is usually willing to take the risk of keeping him going by the aid of his firm's capital until such time.

Importance of Credit Department

This fact has brought to the front the modern credit manager and made the credit department one of the most important departments in modern business. Indeed, the question of profits or no profits is frequently determined by the degree of vigilance and wisdom exercised by the credit man. There was a time when matters of credit and collections were handled as part of, or in connection with, various other functions. This proved unsatis-

factory for the reason that the persons who were in charge of such other functions rarely could devote to their credit work the necessary attention and study. Under those circumstances, collections, particularly, suffered. The customer made payments practically when and as he pleased. A little paid on account now and then kept things going, and any attempts to have payments made with regularity and in adequate amounts would have been regarded almost as an affront.

Fortunately, this is not so any longer. Payment terms are generally well understood when the goods are bought, and the customer is expected to conform to the terms which he has thus—tacitly at least—accepted. Few wholesalers or manufacturers now permit accounts to run on indefinitely. As a matter of fact, few could afford to do so. The necessity of turning its capital frequently in order to make a profit on its trading compels the creditor house to insist upon prompt and regular payment for all goods sold on credit. The same necessity has focussed attention upon the capable credit manager as an essential factor in wholesale marketing of goods. In the words of our author:

> The best credit man is undoubtedly he who checks the largest number of orders with the fewest losses . . . . In order to be of the greatest value to his house, the credit man must . . . steer a middle course. He must take some chances, altho these should never be blind chances. He must always firmly decline to check an order if a well-founded doubt exists in his mind with regard to the probability of the ultimate payment of the account. (pp. 175-176.)

A Credit Man With Ideals

On referring to the methods of a singularly successful credit man who recently had gone to a western city as treasurer of a corporation, the head of the firm in whose service he had been, had this to say:

"He was one of the cleverest letter writers I have ever known. His letters, while strictly businesslike and to the point, always had something of a personal nature about them that pleased the man at the other end. Even when turning down an applicant for credit, he did it in such a way that the customer actually seemed to feel grateful for the letter.

"He was a man of ideals. He always held that a credit transaction is a contract and that if the seller has fulfilled his part of the agreement by properly shipping the goods, the buyer is in honor bound to carry out his part by sending his remittance at the time specified in the agreement. He never asked a delinquent customer to 'please remit,' as so many do. He never permitted the buyer to get the idea that he was doing us a favor by remitting the amount due. But he would have a letter in the mail on the very evening of the day that a remittance which was due failed to arrive. Such a letter would be very brief, but it never failed to convey a sense of disappointment, tho it was always couched in perfectly courteous language.

"If the remittance did not arrive within a few days, he would write again and at greater length, inquiring solicitously as to the reason of nonpayment. Was the debtor ill? Had he met with reverses of

any kind, and could we be of any assistance to him? He always took the ground that only some really important matter could have prevented the debtor from sending the remittance on time. That failure to do so might be due to indifference or to habitual laxity of business methods, he would never admit as being possible.

"But tho always 'on the job' and at times quite severe with a delinquent debtor, he never gave evidence of having his temper ruffled. Sometimes the customer, thinking he had a grievance against us, would write some pretty hot stuff, but our credit man came back at him 'all smiles' and never even indirectly referred to the strong language used. He was too big a man to be ruffled by the petulance of a disgruntled customer and too wise to reply in kind. But if the complaint was a just one, he never quibbled or made excuses, but frankly assumed the blame and generously made amends—often beyond the customer's expectation.

"Yes sir," the narrator concluded, "I regard him as the ablest credit man I've ever known, and we were sorry enough to lose him. He received a good salary, but he earned every penny of it."

An Annoying Evil

One of the most annoying evils with which the credit man is tried, is the practice on the part of some customers of deducting the cash discount after the discount period has expired. Thus, if terms of sale call for two per cent off for cash in ten days, and the

customer takes twenty or thirty days in which to pay the bill, yet deducts the two per cent cash discount, he is really obtaining the use of his creditor's capital for the excess time without paying anything whatever for such use.

Not a few credit men are afraid to insist upon a strict observance of credit terms lest the customer take offense and remove his trade. As a result of this practice, however, many houses lose considerable sums every year, and the credit men who seek to prevent such losses are often discouraged and made to desist by being shown that "others do it"—the "others" of course being competing houses.

We recently talked with a credit man who had become well known in his section of the country by reason of the strong and uncompromising stand which he had taken against what he called "discount thieving."

"Oh yes," he said, in answer to our question, "we have lost a few customers thru our strict adherence to the rule of allowing cash discounts to be deducted only when payment is made within the discount period, and of charging interest on all overdue accounts. But in every case the few we have lost were of a class for whose trade we never cared particularly. Of those whom we regard as good customers, we have not lost one."

"But in view of the general laxity that prevails, do you not often meet strong opposition to your policies?"

"Not nearly so much as you might think. I always emphasize the moral principle involved in taking or retaining what belongs to another, and few business men in our day can afford to come out and openly attack the soundness of that principle.

"If, as is sometimes the case, I have to argue the point with a customer, I try to show him that if he wants to use us as a bank and obtain the use of our money, he must be willing to pay us as he would pay the bank for the privilege. Moreover, it is at the time of purchase that objection should be taken to the terms of sale and not when the account is due and payable. If it is true that 'a bargain is a bargain' why is it not also true that 'terms are terms?'

"And to conclude the argument, I show him that if we were to allow unearned discounts, or if we omitted to charge interest on overdue accounts, we should be discriminating between our customers and imposing a burden upon those who pay promptly. The latter frequently have to borrow at the bank in order to discount their merchandise bills or to settle at maturity. For this they have to pay the bank, while those who make us carry their accounts incur no such expense and in that way really buy their goods cheaper. To permit that, I say, would be to place a premium upon delinquency!"

It is gratifying to know that credit men thruout the country are gradually taking a more determined stand in this matter. The National Association of Credit Men is doing a great deal to put credit-giving on a sounder basis, and we may expect to find before

long that the pernicious practice of "discount thieving" has become a thing of the past.

> *Some day perhaps the code of business ethics will condemn to commercial ostracism him who violates its just rules.*

Synopsis

The first chapter in the present assignment (Chapter XI), deals with the qualities and the training as well as with the general duties of the modern credit manager. Especially interesting is that section which shows how he may become a business force, that is, how, by his advice and judicious attitude, he may assist the weak tho honest customer and in many cases prevent business failures. Some of the steps that are being taken to that end at the present time are related in connection with the activities of a progressive Brooklyn house.

Perhaps no more important chapter is found in the entire Text than Chapter XII in which the author traces the causes of commercial failure among the merchants of the country. Not the least surprising statement made in that chapter is the assertion that "about eighty per cent of business failures are due to faults on the part of those who fail." In other words, eighty per cent of business failures are preventable! Then why do they occur? The answer to that question is found in the same chapter and shows that various factors enter into that equation.

Another startling revelation contained in the chapter is the statement based upon investigation

that the average life of a manufacturing business is six years. In fact, sixty per cent of factories pass out of existence within *five* years after their opening. Manifestly, there is something radically wrong in the manner in which the average concern conducts its business, and you will be interested in following the author in his discussion of the main and the contributory causes of business mortality.

To the minds of many the term "credit management" suggests only a certain more or less complex system of records and printed forms, card indexes and filing devices. This, of course, is not so. These are but the tools with which the credit man works. Nevertheless, they are important tools and indispensable to the efficient conduct of a credit department. Chapter XIII is devoted to a discussion of credit office routine, in which the course of an order from the time it is received until the goods are ready to be shipped is described together with the steps that are taken to investigate the risk.

The means provided by law for the protection of creditors form a considerable part of Chapter XIV and are interesting as showing the need of stringent laws for dealing with fraudulent purchasers. Chapter XV describes the National Bankruptcy Act and the steps that must be taken by the creditor in order to protect his claims. That chapter shows what constitutes a condition of bankruptcy, describes the legal procedure involved and the nature of the discharge which the court may grant the bankrupt. Certain debts, for example, are not canceled by a

discharge in bankruptcy. These are enumerated in the same chapter.

In many respects retail credits differ from those of a wholesale house, even tho essentially they are the same. The difference relates especially to the fact that whereas the wholesale house sells goods to business men for resale, the retail store sells to the consumer, therefore chiefly to private individuals of whom many know but little—and care even less—about proper business methods. The difficulties which beset the path of the credit man in the retail store are discussed in Chapter XVI where also the principles for his guidance in the conduct of his department are laid down.

The remaining three chapters of our Text are devoted to a consideration of the subject of collections and describe the steps that may be taken for the purpose of inducing—or compelling—a delinquent debtor to pay his bill. "The proper time for the credit man to consider whether an account will be properly paid," says the author, "is before that account is opened." But if such consideration was not given to the matter at that time, means must be found for making the collection when the account has become past due. And here much depends, as the author shows, upon the attitude assumed by the credit man or collection manager. The attitude advocated by the author is indisputably the right one and when consistently maintained is certain to reduce losses from bad debts. The author regards the average credit man's failure to assume such

attitude in his dealings with a delinquent as responsible for many of the losses that occur. This section of the Text is replete with practical hints on collection procedure that any business, whether wholesale or retail, may apply, with good hope of success, to its own cases of delinquency.

Altogether, the present assignment is a very practical presentation of the factors that insure success in the management of the credit department in a business house.

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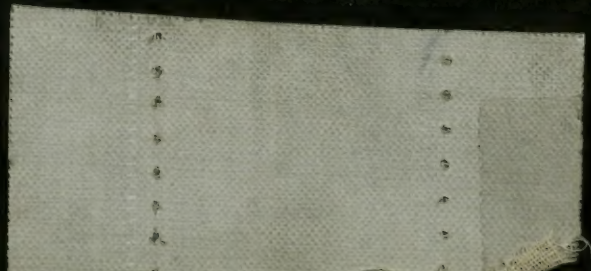

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